MULTIMEDIA UNIVERSITY

STUDENT ID NO

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | |

# MULTIMEDIA UNIVERSITY

# FINAL EXAMINATION

**TRIMESTER 2, 2017/2018**

## BEC1044 –MACROECONOMICS

(All sections / Groups)

08 MARCH 2018
2.30 p.m. - 4.30 p.m.
(2 Hours)

---

**INSTRUCTIONS TO STUDENTS**

1. This Question paper consists of **ELEVEN (11)** pages with **TWO (2)** sections only.
   **Section A** – Forty (40) Multiple Choice Questions
   **Section B** – Three (3) Structured Questions.

2. Attempt **ALL** questions in both **Sections A and B**. The distribution of the marks for each question is given.

3. Answer **Section A** in the MCQ answer sheet provided and **Section B** in the answer booklet provided.

## SECTION A: MULTIPLE CHOICE QUESTIONS (40 MARKS)

1. John just bought shares of stock in IBM for RM10, 000 and paid a RM90 commission to his broker. How did this affect GDP?
   A. It had no impact on GDP.
   B. GDP increased by RM90.
   C. GDP increased by RM10,000.
   D. GDP increased by RM9,990.

2. The best reason economists take only final goods and services into account when calculating GDP is that
   A. this is the way things have always been done.
   B. they want to avoid the problem of final counting.
   C. they want to avoid the problem of double counting.
   D. this is the only way things can be done.

3. For the purpose of calculating GDP, *investment* is spending on
   A. stocks, bonds, and other financial assets.
   B. real estate and financial assets.
   C. new capital equipment, inventories, and structures, including new housing.
   D. capital equipment, inventories, and structures, excluding household purchases of new housing.

4. In a certain economy in 2015, households spent RM1,000 on goods and services; purchases of capital equipment, inventories, and structures amounted to RM350; government spent RM450 on goods and services; and the value of imports exceeded the value of exports by RM50. It follows that 2015 GDP for this economy was
   A. RM1,750.
   B. RM1,850.
   C. RM1,950.
   D. RM2,100.

5. In an imaginary economy, consumers buy only sandwiches and magazines. The fixed basket consists of 20 sandwiches and 30 magazines. In 2006, a sandwich cost $4 and a magazine cost $2. In 2007, a sandwich cost $5. The base year is 2006. If the consumer price index in 2007 was 125, then how much did a magazine cost in 2007?
   A. $2.50
   B. $2.80
   C. $3.20
   D. $3.45

**Continued...**

6. Which of the following is **NOT** a widely acknowledged problem with the CPI as a measure of the cost of living?
   A. substitution bias
   B. introduction of new goods
   C. unmeasured quality change
   D. unmeasured price change

7. Suppose the CPI was 108 in 1967, and suppose one must spend $936 today to obtain the same basket of goods and services that could be bought for $200 in 1967. Then today's CPI is
   A. 410.10.
   B. 433.33.
   C. 468.00
   D. 505.44.

8. In 2014 real GDP in Latania was 750 billion and the population was 3 million. In 2015 real GDP was 907.5 billion and the population was 3.3 million. What was the approximate growth rate of real GDP per person?
   A. 10 percent
   B. 14 percent
   C. 17 percent
   D. 21 percent

9. Which of the following is **NOT** included in M1?
   A. currency
   B. demand deposits
   C. savings deposits
   D. travelers checks

10. Monetary policy affects employment
    A. only in the long run.
    B. only in the short run.
    C. in both the long run and the short run.
    D. in neither the long run nor the short run.

11. Suppose a bank has a 10 percent reserve requirement, $4,000 in deposits, and has loaned out all it can given the reserve requirement.
    A. It has $40 in reserves and $3,960 in loans.
    B. It has $400 in reserves and $3,600 in loans.
    C. It has $444 in reserves and $3,556 in loans.
    D. None of the above is correct.

**Continued...**

*Table 1*

| Bank of Ampa | | | |
|---|---|---|---|
| Assets | | Liabilities | |
| Reserves | $100 | Deposits | $1,000 |
| Loans | $900 | | |

12. **Refer to Table 1.** If the Bank of Ampa has loaned out all the money it wants given its deposits, then its reserve ratio is
    A. 1%
    B. 5%
    C. 10%
    D. 20%

13. **Refer to Table 1.** Assume that the Bank of Ampa is holding the required percent of deposits as reserves. Also, assume all other banks hold only the required percent of deposits as reserves and that people hold only deposits and no currency. What is the money multiplier?
    A. 5
    B. 10
    C. 15
    D. 20

14. If the government institutes policies that increase incentives to save, then in the loanable funds market
    A. the demand for loanable funds shifts right.
    B. the demand for loanable funds shifts left.
    C. the supply of loanable funds shifts right.
    D. the supply of loanable funds shifts left.

15. Investment falls and interest rates rise. Which of the following could explain these changes?
    A. The government went from surplus to deficit.
    B. The government instituted an investment tax credit.
    C. The government reduced the tax rate on savings.
    D. None of the above is correct.

16. If in a closed economy Y = $11 trillion, which of the following combinations would be consistent with national saving of $2.5 trillion?
    A. C = $8 trillion, G = $.5 trillion
    B. C = $6.5 trillion, G = $3 trillion
    C. C = $8.5 trillion, G = $2 trillion
    D. C = $9 trillion, G = $.5 trillion

**Continued...**

17. Which of the following bond buyers did **NOT** buy the bond that best met their objective?
    A. Chia wanted a bond with a high interest rate and was willing to take a lot of risk. She purchased a junk bond.
    B. Anna wanted a bond that would let her best avoid federal income taxes. She purchased a municipal bond.
    C. Bill wanted to purchase a bond that was unlikely to have default. He purchased a bond that Standards and Poor's rated a low credit risk.
    D. Toby held long-term bonds rather than short-term ones to avoid risk.

18. When the money market is drawn with the value of money on the vertical axis, an increase in the money supply
    A. increases the price level and the value of money.
    B. increases the price level and decreases the value of money.
    C. decreases the price level and increases the value of money.
    D. decreases the price level and the value of money.

19. The classical dichotomy refers to the idea that the supply of money
    A. is irrelevant for understanding the determinants of nominal and real variables.
    B. determines nominal variables, but not real variables.
    C. determines real variables, but not nominal variables.
    D. is a determinant of both real and nominal variables.

20. Anne puts money in a savings account at her bank earning 3.5 percent. One year later she takes her money out and notes that while her money was earning interest, prices rose 1.5 percent. Anne earned a nominal interest rate of
    A. 3.5 percent and a real interest rate of 5 percent.
    B. 3.5 percent and a real interest rate of 2 percent.
    C. 5 percent and a real interest rate of 3.5 percent.
    D. 5 percent and a real interest rate of 2 percent.

21. The Fisher effect says that
    A. the nominal interest rate adjusts one for one with the inflation rate.
    B. the growth rate of the money supply determines the inflation rate.
    C. real variables are heavily influenced by the monetary system.
    D. All of the above are correct.

**Continued...**

22. Liquidity preference theory is most relevant to the
    A. short run and supposes that the price level adjusts to bring money supply and money demand into balance.
    B. short run and supposes that the interest rate adjusts to bring money supply and money demand into balance.
    C. long run and supposes that the price level adjusts to bring money supply and money demand into balance.
    D. long run and supposes that the interest rate adjusts to bring money supply and money demand into balance.

23. In which case does the aggregate demand curve shift right?
    A. the price level rises, making the interest rate drop
    B. the price level falls, making the interest rate drop
    C. the money supply increases, making the interest rate drop
    D. the money supply decreases, making the interest rate drop

24. According to the crowding-out effect, a decrease in government spending
    A. increases the interest rate and so increases investment spending.
    B. increases the interest rate and so decreases investment spending.
    C. decreases the interest rate and so increases investment spending.
    D. decreases the interest rate and so decreases investment spending.

25. Automatic stabilisers
    A. increase the problems that lags cause in using fiscal policy as a stabilisation tool.
    B. are changes in taxes or government spending that increase aggregate demand without requiring policy makers to act when the economy goes into recession.
    C. are changes in taxes or government spending that policy makers quickly agree to when the economy goes into recession.
    D. All of the above are correct.

26. The economy is in long-run equilibrium. Aggregate demand then shifts left $50 billion. The government wants to change its spending in order to avoid a recession. If the crowding-out effect is always half as strong as the multiplier effect, and if the *MPC* equals 0.9, by how much does government purchases have to change?
    A. increase $10 billion
    B. increase $50 billion
    C. increase $100 billion
    D. None of the above is correct.

27. Suppose that a central bank increases the money supply. According to the logic of the Phillips curve this should make
    A. prices, output, and employment rise.
    B. prices and output rise, employment fall.
    C. prices rise and output and employment fall.
    D. prices fall, output, and employment rise.

**Continued...**

28. In the long run, which of the following would shift the long-run Phillips curve to the right?
    A. an increase in the minimum wage
    B. a decrease in tax rates
    C. an increase in the money supply
    D. a decrease in the money supply

29. The natural rate of unemployment
    A is constant over time.
    B. varies over time, but can't be changed by the government.
    C. is the unemployment rate that the economy tends to move to in the long run.
    D. depends on the rate at which the Fed increases the money supply.

30. Net capital outflow measures
    A. foreign assets held by domestic residents minus domestic assets held by foreign residents.
    B. the imbalance between the amount of foreign assets bought by domestic residents and the amount of domestic assets bought by foreigners.
    C. the imbalance between the amount of foreign assets bought by domestic residents and the amount of domestic goods and services sold to foreigners.
    D. None of the above is correct.

31. If there is a trade surplus then
    A. saving is greater than domestic investment and $Y > C + I + G$.
    B. saving is greater than domestic investment and $Y < C + I + G$.
    C. saving is less than domestic investment and $Y > C + I + G$.
    D. saving is less than domestic investment and $Y < C + I + G$.

32. If the exchange rate is 125 yen = \$1, a bottle of rice wine that costs 2,500 yen costs
    A. \$20.
    B. \$25.
    C. \$22.
    D. None of the above is correct.

33. When a country experiences capital flight its currency
    A. appreciates and net exports rise.
    B. appreciates and net exports fall.
    C. depreciates and net exports rise.
    D. depreciates and net exports fall.

34. Which of the following would do the most to reduce a trade deficit?
    A. Increase domestic saving.
    B. Increase political stability and respect for property rights.
    C. Negotiate with other countries to get them to reduce their trade restrictions.
    D. Impose higher tariffs on imported goods.

**Continued...**

35. If government policy encouraged households to save more at each interest rate, then
    A. the real exchange rate and net exports would rise.
    B. the real exchange rate and net exports would fall.
    C. the real exchange rate would rise and net exports would fall.
    D. the real exchange rate would fall and net exports would rise.

36. Oceania buys $40 of wine from Escudia and Escudia buys $100 of wool from Oceania. Supposing this is the only trade that these countries do. What are the net exports of Oceania and Escudia in that order?
    A. $140 and $140
    B. $100 and $40
    C. $60 and -$60
    D. None of the above is correct.

37. If the exchange rate is 5 units of Peruvian currency per dollar and a hotel room in Lima costs 300 units of Peruvian currency, how many dollars do you need to get a room?
    A. 1,500, and your purchase will increase Peru's net exports.
    B. 60 and your purchase will increase Peru's net exports.
    C. 1,500 and your purchase will have no effect on Peru's net exports.
    D. 60 and your purchase will have no effect on Peru's net exports.

38. In the United States, a cup of hot chocolate costs $5. In Australia, the same hot chocolate costs $6.5 Australian dollars. If the exchange rate is $1.3 Australian dollars per U.S. dollar, what is the real exchange rate?
    A. 1/2 cup of Australian hot chocolate per cup of U.S. hot chocolate
    B. 1 cup of Australian hot chocolate per cup of U.S. hot chocolate
    C. 2 cups of Australian hot chocolate per cup of U.S. hot chocolate
    D. None of the above is correct.

39. If purchasing-power parity holds, a dollar will buy
    A. more goods in foreign countries than in the United States.
    B. as many goods in foreign countries as it does in the United States.
    C. fewer goods in foreign countries than it does in the United States.
    D. None of the above is implied by purchasing-power parity.

**Continued...**

40. If a central bank were required to target inflation at zero, then when there was a negative aggregate supply shock the central bank
    A. would have to increase the money supply. This would move unemployment closer to the natural rate.
    B. would have to increase the money supply. This would move unemployment further from the natural rate.
    C. would have to decrease the money supply. This would move unemployment closer to the natural rate.
    D. would have to decrease the money supply. This would move unemployment further from the natural rate.

**Continued...**

## SECTION B: STRUCTURED QUESTIONS (60 MARKS)

### QUESTION ONE

( a) List the three major problems in using the CPI as a measure of the cost of living. (6 marks)

(b) Jamal and Sharifah meet Ghazali, the banker, to work out the details of a house loan. They all expect that inflation will be two (2) percent over the term of the loan, and they agree on a nominal interest rate of six (6) percent. As it turns out, the inflation rate is five (5) percent over the term of the loan.

(i) Find the ***expected*** real interest rate? (1 mark)

(ii) Find the actual real interest rate? (1 mark)

(iii) State who benefited and who lost because of the unexpected inflation? (2 marks)

(c) (i) Describe standard of living and one dimension of standard of living. (2 marks)

(ii) Describe productivity. (2 marks)

(iii) Explain how the productivity related to the country's standard of living? (3 marks)

(iv) Identify the factors that determine labour productivity. (3 marks)

**(Total: 20 marks)**

### QUESTION TWO

(a) Explain why the aggregate demand (AD) curve slopes downward. (6 marks)

(b) Explain how a change in the money supply can affect the following in the short run. (6 marks)

(i) The supply of loanable funds
(ii). The price level
(iii). The expected inflation rate

**Continued...**

(c) Explain the impact of crowding out effect on the effectiveness of fiscal policy. (3 marks)

(d) i) Explain the logic according to liquidity preference theory by which an increase in the money supply changes the aggregate demand curve. (2 marks)

ii) The National Bank has reserves of $20,000 and checkable deposits of $100,000. The reserve ratio is 20 percent. Households deposit $5,000 in currency into the bank that is added to reserves. How level of excess reserves does the bank now have? (3 marks)

**(Total: 20 marks)**

## QUESTION THREE

Read the passage 1:

Passage 1

### Malaysia's 2018 Budget

Malaysian Prime Minister Najib Razak gave an upbeat assessment of the economy in an economic report accompanying his budget speech in Kuala Lumpur on Friday. Stronger economic growth and a rebound in oil prices is helping to boost revenue in the Southeast Asian nation, allowing the government to spend more but still bring down the fiscal deficit.

The government has planned for a budget that makes up a smaller share of GDP, in a nod to those concerned about fiscal deficits. Higher expenditures should be largely offset by an increase in revenue, leaving a smaller negative balance than for this year. Table 1 presents Malaysian budget in a brief from 2016 to 2018.

**Table 1**

| | 2017# | 2018* |
|---|---|---|
| Revenue (RM million) | 225,337 | 239,860 |
| Operating expenditure (RM billion) | 219,910 | 234,250 |
| Net development expenditure (RM billion) | 45,314 | 45,400 |
| Overall balance (% of GDP) | -3.0% | -2.8% |

# Revised estimate
* Budget estimate

Source: Cho, M & Jamrisko, M. (October 27, 2017). Malaysia's 2018 Budget in Four Charts. Bloomberg news at https://www.bloomberg.com/news/articles/.

**Continued...**

Based on the passage 1, answer the following questions:

(a) Calculate the overall balance of the budget for each year in terms of RM million.
(6 marks)

(b) Identify the type of budget that Malaysian government plan for each year.
(2 marks)

(c) Suppose you are allowed to provide professional advice to the Ministry of Finance. Would you advise the government to balance its budget? Justify your advice with **FOUR (4)** reasons.
(12 marks)
**(Total: 20 marks)**

**End of Page**